October 2001

SUMMARY OF INITIATIVE 773

(Improving the Health of Low Income Persons)

This information has been prepared in response to various requests for a summary of the provisions of Initiative 773, which will be before the voters at the statewide general election on November 6, 2001. The material in this report is provided for informational purposes only. It is provided for use by members of the Legislature and legislative staff. It is not provided as an expression for or against any of the provisions of Initiative 773.

BRIEF SUMMARY

Initiative 773 raises taxes on cigarettes from $0.825 to $1.425 per pack and on tobacco products from 74.9 percent 129.4 percent of the wholesale price. The revenue raised from the increased taxes are deposited into the Health Services Account and dedicated to (1) programs that improve the health of low income persons, (2) tobacco control and prevention activities, and (3) the Basic Health Plan.

CIGARETTE AND TOBACCO PRODUCTS TAXES

Washington's cigarette tax is currently $0.825 per pack of 20 cigarettes. According to the Department of Revenue (DOR), this tax generates about $235 million per year divided among four accounts as follows: 28 percent to the general fund, 10 percent to the Water Quality Account, 13 percent to the Violence Reduction and Drug Enforcement Account (VRDE) and 50 percent to the Health Services Account.

In addition, for non-cigarette tobacco products, the state levies a tobacco products tax. This tax is 74.9 percent of the wholesale price of such things as cigars, pipe tobacco and chewing tobacco. According to DOR, this tax generates $28 million per year divided amount three accounts as follows: 64.3 percent to the general fund, 22.4 percent to the Water Quality Account and 13.4 percent to the Health Services Account.

COMPARISON TO OTHER STATES

According to the Federation of Tax Administrators (FTA), on January 1, 2001 the state of New York has the highest cigarette tax in the nation at $1.11 per pack, followed by Alaska and Hawaii at $1.00 per pack. At our current rate of $0.825 per pack, Washington state has the fourth highest cigarette tax in the country. If Initiative 773 is enacted, Washington would have the highest cigarette tax in the nation at $1.425 per pack.

Making comparisons of tobacco products tax rates between Washington and other states is more difficult because states tax the products at different places along the supply chain. However, according to FTA statistics, Washington's current tobacco products tax of 74.9 percent is among the highest rates in the nation, with Alaska and Massachusetts having slightly higher tax rates at 75 percent. If Initiative 773 is enacted, Washington's tobacco products tax rate would be 129.4 percent, making it the highest in the nation among those states who apply their tax in a manner similar to Washington state.

DEDICATION OF NEW REVENUES

The net new revenues from the increased taxes would be deposited into the Health Services Account which would gain an estimated $220 million in the 2001-03 biennium and $270 million in 2003-05.

When projecting the effect of a cigarette tax increase, the reduced demand for taxable cigarettes at the new higher price must be accounted for. When prices go up, consumption decreases and the purchase of untaxed cigarettes increases. Both changes reduce the number of taxable cigarettes sold and reduce the revenue for the other accounts. To offset this effect, the initiative specifically dedicates a portion of the new tax revenue to "backfill" losses in the Water Quality Account and the VRDE account holding each harmless. There is no such provision for the state general fund, which will therefore lose $7.2 million in the 2001-03 biennium and $8.9 million in 2003-05.

	FY 2002	**FY 2003**	**FY2004**	**FY 2005**	**FY 2006**	**FY2007**
General Fund-State	($2.2)	($5.1)	($4.7)	($4.3)	($3.9)	($3.6)
Water Quality Account	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Violence Reduction & Drug Enforcement	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
Health Services Account	$84.4	$135.1	$135.1	$135.1	$135.2	$135.3
Total State Impact	**$82.2**	**$130.0**	**$130.4**	**$130.8**	**$131.2**	**$131.7**
Estimates provided by the Department of Revenue - Research Division						

EXPENDITURES ON LOW INCOME HEALTH PROMOTION

The initiative directs that $5 million per year be appropriated from the Health Services Account in state fiscal years 2003 and 2004 for programs that improve the health of low-income persons. The Department of Health is directed to provide the Legislature with recommendations by March 2002 on how this money could be most effectively used to reduce disease and promote health among low-income persons.

EXPENDITURES ON TOBACCO PREVENTION AND CONTROL

Ten percent of all remaining revenues collected under the initiative are to be transferred to the state Tobacco Prevention and Control Account. This account was established in fiscal year 2000 with the first $100 million which Washington received under the nationwide settlement of state lawsuits against the major tobacco companies. Additional revenues to the Tobacco Prevention and Control Account under Initiative 773 over the next six years are estimated by the Department of Revenue as follows:

In Millions					
FY 2002	**FY 2003**	**FY 2004**	**FY 2005**	**FY 2006**	**FY 2007**
$9.8	$15.6	$15.4	$15.8	$15.7	$15.7
Estimates provided by the Department of Revenue - Research Division					

The initiative further directs the Legislature to appropriate a minimum of $26.24 million per year from this account, starting in fiscal year 2003, for implementation of the statewide tobacco prevention and control plan. This is a plan developed by the Department of Health for preventing and reducing tobacco use through strategies such as media campaigns, community education, school-based activities, and telephone counseling and referrals. Through approximately fiscal year 2011, the difference between the $26.24 million minimum annual expenditure mandated by the initiative and the additional revenues available to the Tobacco Prevention and Control Account from the initiative could be covered from the $100 million previously deposited into the account. After 2011, the initial $100 million would be depleted and approximately $11 million per year of additional revenues would need to be raised for or diverted to the Tobacco Prevention and Control Account to meet the minimum expenditure level required by the initiative.

EXPENDITURES ON BASIC HEALTH PLAN ENROLLMENTS

The Basic Health Plan (BHP) provides state-subsidized health insurance for persons with family incomes below 200 percent of the federal poverty level. Two hundred percent of poverty is presently about $17,000 per year for a single individual, and $35,000 per year for a family of four. The BHP covers physicians visits, hospital care, outpatient and laboratory procedures, prescription drugs, and limited mental health and substance abuse services. The BHP does not provide dental or vision care, or cover rehabilitative therapies. Persons covered by the BHP are required to make co-payments at the time of service, and to pay monthly premiums which range from $10 to about half of the monthly premium cost, depending upon income. The state subsidizes the balance of the monthly premium cost.

Initiative 773 provides that all remaining revenues generated by its tax increases, after covering the revenue transfers and expenditures described above, are to be used to increase BHP enrollments. These additional remaining revenues are estimated by the Department of Revenue as follows for the next six years:

In Millions					
FY 2002	**FY 2003**	**FY 2004**	**FY 2005**	**FY 2006**	**FY 2007**
$74.6	$114.5	$114.6	$119.2	$119.4	$119.6
Estimates provided by the Department of Revenue - Research Division					

The number of additional persons who would receive BHP coverage with these additional revenues will depend upon a number of factors, including:

- the rate at which health care costs covered by the BHP increase in coming years. BHP premiums have increased an average of 10 percent per year over the past four years. More people can be covered with the additional revenues to the extent future inflation is lower than that, and fewer can be covered to the extent it is higher.

- the pace at which additional enrollees are added to the program. The initiative states that the BHP "may enroll up to 20,000 additional persons during the biennium beginning July 1, 2001", and "up to 50,000 additional persons during the biennium beginning July 1, 2003". To the extent these maximum additional enrollment levels are reached earlier within each two-year period, fewer total additional enrollees can be subsidized on an ongoing basis; to the extent the stated maximums are reached later, a higher ongoing enrollment level can be sustained.

- the age and income mix of the new enrollees. For example, state subsidy costs are about 25 percent greater for a 45 year old than for a 25 year-old enrollee, and about twice as high for an enrollee at 100 percent than for one at 200 percent of the poverty level.

- whether future state appropriations are sufficient to support a "base" BHP enrollment level of 125,000. The initiative requires the state to first subsidize 125,000 enrollment slots each year with other revenue sources before the new revenues generated by the initiative can be used to subsidize BHP enrollments. The state budget currently provides $498 million for operation of the BHP during the 2001-03 biennium. This is expected to be the amount needed to subsidize 125,000 monthly enrollments from July 2002 onward. That base appropriation level would need to grow at the same pace as BHP premium costs, currently projected at 10 percent per year, before any of the new revenues generated by the initiative could be used for BHP enrollments. If the Legislature chose not to provide funding sufficient to support the base level of 125,000 enrollees, then none of the additional revenue raised by the initiative could be spent for new BHP enrollments.

For illustrative purposes only, the following table summarizes the average additional enrollees who could be covered, and the point at which annual and cumulative additional costs would begin to exceed revenues, under several different scenarios. Under Scenarios A and B, more of the new revenues are used to reach the initiative's enrollment targets sooner. Under Scenario C, revenues are "stretched" over a longer period of time.

Scenario A assumes that premium costs increase an average of 8 percent per year, and that the 20,000 and 50,000 enrollment targets called out in the initiative are reached by January 2003 and by July 2004, respectively. **Scenario B** assumes that premiums increase an average of 10 percent per year, but that enrollments grow more slowly, and do not reach the 20,000 and 50,000 targets until June 2003 and June 2005, respectively. **Scenario C** also assumes that premiums increase by 10 percent per year, but assumes that enrollments are only allowed to grow gradually to the point at which FY 07 annual costs would equal FY 07 annual revenues.

	Scenario A	Scenario B	Scenario C
Annual Average Additional Enrollments			
FY 03	16,500	10,833	4,727
FY 04	35,000	28125	13,455
FY 05	50,000	43,125	22,182
FY 06	50,000	50,000	30,911
FY 07	50,000	50,000	35,637
Annual Costs Begin to Exceed Annual Revenues In	FY 05	FY 05	FY 07
Cumulative Costs Exceed Cumulative Revenues	FY 10	FY 09	FY 14
Sustainable Enrollment in Subsequent Years	Reduced 8 percent per Year from FY 09 Level	Reduced 10 percent per Year from FY 08 Level	Reduced 10 percent per Year from FY 13 Level

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